

# **The CARE Act**

## **Section-by-Section Summary**

### **(Charity Aid, Recovery, & Empowerment Act of 2003)**

#### **OVERVIEW**

The CARE Act aims to tap into America's renewed spirit of unity, community and responsibility to better respond to pressing social problems and ultimately help more people in need. To do so, it would leverage new support and resources for a broad range of community and faith-based groups - including those that are already working cooperatively with government to provide critical services and improve people's lives, and those who want to become part of that partnership.

This diverse universe of charitable organizations - which proved once again after the terrorist attacks how effective they are in meeting real human needs - is uniquely American and forms the backbone of our civil society. The CARE Act would encourage GIVING, SAVING, and FAIRNESS by strengthening that backbone through a broad array of tools and strategies - 1) tax incentives to spur more private charitable giving; 2) innovative programs to promote savings and economic self-sufficiency for low-income families; 3) technical assistance to help smaller social services providers do more good works; and 4) additional federal funding for important social service programs.

These provisions are designed to respond to the continuing challenges facing charities in the wake of the September 11th attacks and the soft economy, which have put a significant drain on resources. These provisions have been officially scored by the Joint Tax Committee as costing approximately \$13 billion over 10 years. The CARE Act was paid for by offsets, which close some corporate tax loopholes, in the Finance Committee consideration on February 5, 2003.

#### **TITLE I: CHARITABLE GIVING INCENTIVES**

- Create a charitable tax deduction of up to \$250 for individual taxpayers and \$500 for couples who do not itemize on their tax returns for giving beyond \$250 for individuals and \$500 for couples
- Allow IRA holders to make charitable contributions from their accounts
- Provide an enhanced charitable deduction for donations of food and books to charitable organizations
- Expand incentives for S corporations to increase corporate charitable giving
- Expansion of charitable contributions for scientific property used for research and for computer technology and equipment used for educational purposes
- Enhanced deduction for charitable contributions of literary, musical, artistic, and scholarly compositions
- Modifications to encourage contributions of qualified real property for conservation purposes and exclusion of 25 percent of gain on sales or exchanges of land or water interests to eligible entities for conservation purposes

## TITLE II: IMPROVED OVERSIGHT OF TAX-EXEMPT ORGANIZATIONS

Improves oversight of tax-exempt organizations through expansion of disclosure requirements and modifications of reporting transactions and expansion of penalties for improper filings. Also allows for the suspension of the tax-exempt status of terrorist organizations.

## TITLE III: OTHER CHARITABLE AND EXEMPT PROVISIONS

This section includes a variety of charitable provisions including an expedited review process for organizations seeking 501(c)(3) designation and thereby makes it easier to qualify for Federal grants and contracts. 501(c)(3) status confirms that an organization is a tax-exempt charity, eligible to receive tax-exempt donations. Although any group that applies for that status can hold itself out as a 501(c)(3) once it sends the IRS its application, a number of government programs won't consider applications from any group that hasn't yet received approval of its application from the IRS -- a process that sometimes can take several months. To help facilitate that process, the bill requires the IRS to expedite the 501(c)(3) application of any group that needs that status to apply for a government grant or contract. And, in an effort to help the smallest of these groups, it requires the IRS to waive the application fee for groups whose annual revenues don't exceed \$50,000. This section also includes a modification of the excise tax on unrelated business taxable income of charitable remainder trusts and other miscellaneous provisions.

## TITLE IV: SOCIAL SERVICES BLOCK GRANT

This section would increase Federal funding for the Social Services Block Grant (SSBG), which most charitable and faith-based organizations agree is a critically important and effective program for meeting the needs of disadvantaged communities and families. SSBG provides flexible funds to states for such vital programs as Meals on Wheels, child and elderly protective services, and support services for the disabled. Over the last five years, however, the program has seen its funding reduced by more than \$1 billion.

The bill aims to restore funding for SSBG over the next two years to its authorized level as dictated in the 1996 welfare reform law for a total increase of \$1.375 billion.

## TITLE V: INDIVIDUAL DEVELOPMENT ACCOUNTS

This section reflects bipartisan legislation that Senators Santorum and Lieberman have introduced to expand the use of Individual Development Accounts (IDAs) to encourage low-income working families to save and build assets. IDAs are special savings accounts that offer matching contributions from the sponsoring bank or community organization, on the condition that the proceeds go to buying a home, starting or expanding a small business, or to pay for post-secondary education - the assets necessary to provide stability and self-sufficiency.

Initial IDA demonstrations around the country have proven successful in changing the lives of account holders and reducing their dependency on governmental and other social services. The CARE Act aims to build on these successes and increase the availability of IDAs, by significantly

reducing the cost for banks and community organizations to offer these innovative accounts. Specifically, it would provide a dollar-for-dollar tax credit to offset the matching contributions up to \$500 per account. This incentive, which is estimated to cost \$487 million over the next 10 years, could help create as many as 300,000 new accounts over that time. Individuals with an adjusted gross income (AGI) of less than \$18,000, head of households with an AGI of less than \$30,000, and married couples filing jointly with an AGI of less than \$38,000 would be eligible.

## TITLE VI: MANAGEMENT OF EXEMPT ORGANIZATIONS

This section authorizes an appropriation of \$80 million for each fiscal year to carry out the administration of exempt organizations by the Internal Revenue Service. The current appropriation is approximately \$67 million.

## TITLE VII: REVENUE PROVISIONS

Provisions designed to curtail inappropriate corporate tax shelters make the entire bill revenue neutral.

## TITLE VIII: COMPASSION CAPITAL FUND

To help small community and faith-based organizations better partner with the government and serve communities in need, the bill creates a Compassion Capital Fund and authorizes four agencies to distribute its resources. HHS, DOJ, HUD and the Corporation for National and Community Service will collectively have over \$150 million a year to offer technical assistance to community-based organizations for activities such as writing and managing grants, assistance in incorporating and gaining tax-exempt status, information on capacity building and help researching and replicating model social service programs.

## TITLE IX: MATERNITY GROUP HOMES

This section is designed to advance one of the key goals of welfare reform, helping teenage mothers achieve self-sufficiency by strengthening federal support for locally-run maternity group home programs. The 1996 welfare reform law requires that minors live at home under adult supervision or in a maternity group home in order to receive benefits. Teenagers who are provided the opportunity to live in these homes are more likely to continue their education or receive job training, less likely to have a second teenage pregnancy, and more likely to find gainful employment that allows them to leave welfare. To help give more teenage mothers this kind of opportunity, the bill creates a separate funding stream for maternity group home programs and authorizes \$33 million in additional funding. Many maternity group homes also provide important adoption support services.